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C O N F I D E N T I A L SECTION 01 OF 02 RABAT 000371

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SUBJECT: FILLON VISIT HIGHLIGHTS MOROCCO-FRANCE ECONOMIC
COOPERATION

Classified By: Econ Counselor Stuart Smith, Reasons 1.4 (b) and (d).

¶1. (SBU) Summary: French Prime Minister Francois Fillon's April 17-18 visit to Morocco for the 9th meeting of heads of government of the two countries brought signature of a range of contracts, particularly in the field of transport, but little else of note. Fillon was accompanied by an extensive business delegation, a testimony to France's continued privileged position in the Moroccan market. An April 18 meeting of business leaders in Rabat, however, highlighted many of the same preoccupations that concern other foreign investors: a shortage of qualified workers, high taxes, and lack of objectivity in the legal system. On taxes, business leaders warned that "the fiscality for expatriate professionals is not competitive," a message identical to the one we have sought to convey in our attempts to negotiate a tax agreement for American schools in Morocco. In a sign of the expanding reach of Moroccan tax authorities, Fillon's visit came on the heels of a strike by personnel at the French Mission, seeking increased wages to compensate for the French Embassy's agreement to begin withholding payroll taxes from their salaries. End Summary.

¶2. (U) French-Moroccan economic ties were at the center of the agenda of Fillon's two-day visit to Morocco on April 17-18, Moroccan Prime Minister Abbas El Fassi termed those relations exceptional and dynamic, in recognition of the fact that notwithstanding Morocco's efforts to open itself to other markets, France remains far and away its leading trading partner and its leading source of investment and tourists. He added that those relations are also "far from having exhausted all their potential." The two leaders signed 16 different conventions and contracts, with the most significant falling in the transport field. They included nearly 200 million Euros in conditional loans to help finance a tramway between Rabat and its sister city of Sale (an integral part of the development plan for the Bouregreg valley which lies between the two cities) and a 75 million Euro grant for technical assistance and feasibility studies for the planned high speed train between Tangier and Casablanca. Morocco also agreed to purchase a French frigate with a value of 470 million Euros.

¶3. (SBU) In a French Embassy debrief on April 22, officials highlighted the range of assistance agreements signed by the two government heads, including French support for professional education, disbursement of assistance to the national human development initiative, as promised by French President Sarkozy during his visit last autumn, and implementation of a fund to help build the capacity of local governments in Morocco. For their part, Moroccan officials and media highlighted Fillon's characterization of Morocco's

autonomy plan for the Western Sahara as "serious and credible," while the official Moroccan press breathlessly celebrated the "warmth" of bilateral relations, as reflected in the informality of the official meetings with Ministers addressing each other "by their first names" and in Fillon's declaration that "what is most striking is that there are no differences between us."

¶4. (C) French Embassy Polcouns told Polcouns that FM Kouchner accompanied Fillon but met separately with Foreign Minister Fassi Fihri. The discussion ranged widely, but focused on the Maghreb and specifically Western Sahara. Fassi Fihri said that the improvement of relations with Algeria was a top priority, but he did not see any perspective for significant movement before the consolidation of Bouteflika's third term.

He specifically discounted any major advances coming out of the April 25-27 Tangier 50 year reunion conference of the Maghreb founding parties, to which the Algerian FLN will send a substantial delegation. Regardless, Fassi Fihri said in the meantime Morocco would continue to reach out as best it could to Algiers.

¶5. (SBU) Much press attention focused on the frank comments of French business leaders in a roundtable with their Moroccan counterparts on April 18 in Rabat. Notwithstanding France's continued privileged position in the Moroccan market, their concerns echoed those of other less well-placed nationalities. Thus Jean-Rene Fourtou, co-president of the bilateral French-Moroccan "Economic Impulsion Group" highlighted three principal weaknesses which hold back Moroccan growth: the problem of a lack of properly trained human resources, Morocco's uncompetitive fiscal regime with its onerous tax rates, and the lack of objectivity in the

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Morocco legal system. Of the three, he and his counterparts particularly emphasized the problem of a lack of trained workers. They praised the bilateral convention by which France will grant 22.5 million Euros to create or rehabilitate training centers for key sectors and stressed that professional training is an area that Morocco must move swiftly to redress. On taxes, Fortou pointed out that Morocco's tax regime for expatriate employees is uncompetitive, in comparison even with European rivals. For their part, Moroccan counterparts stressed that friendship is no longer enough. Moulay El Alamy, head of the country's leading business federation, argued that in an era of globalization, "relations cannot be based on friendship...but on concrete successes."

¶6. (SBU) Comment: Little new transpired during the Fillon visit, and the exercise was more of a "check the box" exercise designed to highlight the longstanding and close partnership between the two countries. A number of the contracts, including particularly the Tangier-Casablanca high speed train, continue to bemuse observers, since they seem far removed from the critical infrastructure needs of this still developing country. Most ascribe the genesis of the TGV project to the need for a high-profile vehicle to counterbalance the fact France's Rafale lost out to the U.S. F-16. Most interesting were the frank comments of French businessmen, which underline the fact that French business faces the same challenges as its international competitors. The French business concern about taxes echoes the issue that is at the base of our efforts to conclude a tax agreement for State Department-supported American schools in Morocco: current tax rates handicap all businesses but particularly threaten the economic viability of any operation that relies on expatriate personnel.

¶7. (SBU) Comment Continued: The timing of the Fillon visit highlighted the tax issue in another way, however, in that it came on the heels of a strike by personnel at the French mission. Employees, including teachers at French Mission schools, were protesting the French Embassy's refusal to raise their salaries in compensation for its decision to

start withholding payroll taxes from their paychecks. This is the other side of the tax issue, which ultimately will likely impact all diplomatic missions in Morocco, as the Moroccan tax office ratchets up its efforts to collect from non-paying groups. Employees of diplomatic institutions, which are technically exempt from the withholding requirement, are at the top of the list. Faced with action against individual employees, however, the French ultimately decided to yield the point, an opening the GOM will undoubtedly seek to exploit. End Comment.

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